

## Comments on CAISO's Commitment Cost Enhancements Phase 3 Draft Final Proposal

March 2, 2016

On February 17, 2016 CAISO posted the Commitment Cost Enhancements Phase 3 (CCE Ph3) Draft Final Proposal, followed by a stakeholder call on February 25, 2016 to discuss the Revised Straw Proposal. California Department of Water Resources State Water Project (CDWR) appreciates the opportunity to submit comments.

### Summary of Revised Scope:

While many elements of the proposal remain unchanged, CAISO has introduced some significant changes that should be carefully analyzed before CAISO presses ahead with an ambitious implementation schedule. New elements include (but are not limited to) the added scope of additional Master File inputs (which came from the Bidding Rules Enhancements initiative) and Short term use-limited reached outage cards (which came from the Reliability Services Phase 2 initiative). CAISO has also proposed exemptions to allow for temporary contractual limitations to qualify for Use-Limited status.

### Comments:

*Hydro-electric resources and Participating load resources should remain default Use-Limited by the Tariff definition as they are today:*

#### Use-Limited Resource

A resource that, due to design considerations, environmental restrictions on operations, cyclical requirements, such as the need to recharge or refill, or other non-economic reasons, is unable to operate continuously. This definition is not limited to Resource Adequacy Resources. A Use-Limited Resource that is a Resource Adequacy Resource must also meet the definition of a Resource Adequacy Resource.

CDWR requests that CAISO retain the default Use-Limited Resource status for those hydro-resources and Participating Load (PL) resources for which limitations cannot be easily or effectively quantified in a negotiated opportunity cost. CAISO's proposal continues to lack details regarding negotiated opportunity costs and even with the "safety net" of the use-limited reached outage cards, the development of opportunity costs is likely to be very challenging and may be impossible.

In CDWR's November 24, 2015 comments to the CCE Ph3 – Revised Straw proposal, CDWR requested more details on the negotiated opportunity cost methodology and process as well as

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a request that its resources remain on the registered cost option and retain Use-Limited Resource status until all negotiated opportunity costs are developed and agreed upon. CAISO's policy development group seemed to have been receptive to CDWR's requests during a side discussion via web conference on December 14, 2015; however, CDWR's comments were not addressed in CAISO's CCE Ph3 Final Draft Proposal. Because of the complexities of CDWR's hydro and PL resources' limitations and the role they play in California's water delivery system, these resources would have little choice but to seek to negotiate opportunity costs. It seems unlikely that negotiated opportunity costs will be appropriate to capture hydro and PL resources' limitation values, at least for complex delivery systems such as those of CDWR. CDWR is concerned that not all limitations can be quantified as a start, minimum load, or energy cost (e.g. environmental and ecological restrictions, water delivery requirements, flood control requirements, etc.).

CDWR's primary function is water management and its resources must release and pump water within coordinated time frames in order to maintain operational integrity of the water system and to meet regulatory requirements. The reliable delivery of water to the people of California is a mission CDWR must fulfill, regardless of whether its operations allow it to economically maximize its participation in the CAISO markets. FERC has recognized the difficulty of optimizing hydroelectric output due to the numerous other obligations applicable to hydroelectric plants.<sup>1</sup> CDWR faces additional complexity due to its role in using its system of hydroelectric plants and pumps to deliver water to a large proportion of California, to manage flood control requirements, and to meet environmental requirements.

*If not, CAISO must explain clearly how it will avoid negative impacts to the CDWR's existing Use Limited Participating Loads and hydroelectric projects.*

If CAISO does proceed with its proposal that may prevent CDWR's hydro and participating load resources from being designated as Use-Limited Resources (e.g. if the use limitations on those resources cannot be modelled or negotiated or are not otherwise suitable for an opportunity cost component), then CAISO must explain how it will address impacts on CDWR.

In the past, CAISO and CDWR have worked together to develop mechanisms that allow CDWR to bid into CAISO markets and to perform CDWR's primary functions simultaneously. This system has allowed CDWR to bid in its resources where most optimal much of the time and to refrain from doing so where it had to serve its non-economic and regulatory priorities. It has yet to be seen whether a negotiated bid could be developed that would maintain those values. By making opportunity costs a requirement to maintain Use-Limited Resource status, but not providing a way for CDWR's complex systems to function as they have in the past, the CAISO's

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<sup>1</sup> *Cal. Indep. Sys. Operator Corp.*, 127 FERC ¶ 61,298, PP 122-24 (2009).

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proposal is not complete. CDWR's hydro and PL resources should continue to receive the same Use-Limited treatment they receive now.

For example, if CDWR's resources are no longer eligible to be Use-Limited Resources but remain Resource Adequacy Resources, further information is needed on how such units would bid if CAISO intends to do away with use plans. Currently, the rule in Tariff Section 40.6.4.3.2 allows a PL resource that is a Resource Adequacy Resource to bid/self-schedule in accordance with its use plan. Another example of an important impact that CAISO must address is how the elimination of Use-Limited Status for CDWR's participating loads could affect the existing Participating Load Agreement (PLA)<sup>2</sup> between CAISO and CDWR. Under that agreement, CAISO and CDWR agreed upon arrangements under which CDWR is able to economically bid its Pumping loads into the market as Participating Loads where it is feasible for it to do so. Section 4.5.2 of the PLA states:

Use-Limited. DWR at its sole discretion may elect to register its Participating Loads as Use-Limited Resources in accordance with the CAISO Tariff. If registered as Use-Limited, then such Participating Loads shall be eligible to submit Bids for Contingency Only reserves ...

Please explain how CAISO will continue to allow CDWR to Bid Contingency Only (non-spin) reserves if the Use-Limited definition is revised. Section 4.6.3 of the PLA also provides for the use of Participating Loads to provide Resource Adequacy Capacity. They require CDWR to submit a Supply Plan and a Resource Adequacy Plan, which CDWR must follow in using its Pumping Loads to provide Resource Adequacy Capacity. However, bidding is done according to a Use Plan. If CAISO intends to phase out Use Plans, please explain how bidding under the PLA will proceed.

CAISO states (at p. 15) that its intent in removing the default Use-Limited Resource designation is not to have any impact on how current default Use-Limited resources are treated in the CAISO markets. Exemptions from bid insertion and RAIM would also continue (p.10). DWR appreciates these statements. However, the removal of the Use Plan requirement (discussed in the stakeholder meeting) would seem to introduce confusion, in that DWR's Use-Limited hydroelectric resources and participating load have been required to abide by RA must-offer or bid Contingency Operating reserve in accordance with such plans. Without the plans, when and how must such resources offer and bid?

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<sup>2</sup> The agreement was most recently amended in FERC Docket No. ER14-406-000 to extend its term through November 1, 2017.

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Sometimes DWR can economically bid its resources into CAISO markets, but not all of the time. It may be difficult to negotiate an opportunity cost bid to effectively optimize CDWR's limitations. CAISO should consider retention of the Default Use-Limited Resource status for entities so situated.

## *CCE Ph3 Implementation date*

CDWR agrees with other stakeholders that the implementation of the CCE Ph3 changes should be delayed until Spring or Fall of 2017. CDWR also requests that CAISO postpone the CCE Ph3 presentation to the Board of Governors to allow for further refinements to the proposal. The current timeline doesn't allow sufficient time for resources that would need to develop a negotiated cost methodology for all limitations listed in the Use-Limited Plan Data Template (ULPDT). On February 26, 2016 the implementation of the ULPDT was delayed, which further confounds the status of Use-Limited Resources and how they will be dispatched or counted towards RA requirements. As described above, it may also be necessary to negotiate terms for the DWR PLA.

Further, the ULPDT does not adequately describe how such resources would be treated when selecting [Other] as the use limit type, does not contain appropriate categories that coincide with the types of limitations CDWR's resources have, and it does not explain how such resources would be dispatched. This is a severe limitation to a system that was originally described as an RA availability tool, but that may now be used to dispatch resources beyond their intent.

## *CDWR Resources Should Be Allowed to use the Use-Limit Outage Card*

Given the uncertainty of CDWR's resources operation on a daily basis and difficulty in determining a negotiated bid due to complexity of operational limits, CDWR agrees with the plan to retain temporary use limit outage cards that allow for RAAIM exemption, and urges CAISO to allow that outage card to be used by resources (such as CDWR resources) that have linked and complex operational limits and uncertainties.

## *CDWR Does Not Support Masterfile Changes*

CDWR currently includes operations limitations (such as maximum daily starts and pump minimum up or down time) in its Masterfile. These limitations reflect CDWR's engineering judgement as to the best way to protect its equipment so as to maintain their primary water-delivery role. Imposing a requirement to include only design capability characteristics in the Masterfile, and allowing CAISO the discretion to decide when to make those design capability values available to CAISO operators, has the potential to damage the equipment that is critical to delivering water to Californians.